

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ST. JOSEPH COUNTY TRANSP. AUTHORITY	County ST. JOSEPH
Audit Date 9/30/05	Opinion Date 11/18/05	Date Accountant Report Submitted to State: 11/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

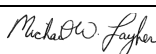
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature 		Date 11/18/05	

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

September 30, 2005 and 2004

**ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY
THREE RIVERS, MICHIGAN
SEPTEMBER 30, 2005**

BOARD OF DIRECTORS

Kenneth Parker	Chairperson
Lynn Coursey	Vice Chairperson
Jean Skalski	Secretary
Karen Carlisle	Director
Glenn Oxender	Director
John Dobberteen	Director
P. Joseph Hass, Jr.	Director

**TRANSPORTATION COORDINATOR
Dennis Schuh**

Board members shall be appointed for terms of two years beginning April 1, 2005 as set forth in Article IX, Section 4, of the articles of incorporation.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
St. Joseph County Public Transportation Authority

We have audited the accompanying financial statements of the governmental activities of the St. Joseph County Public Transportation Authority, as of and for the years ended September 30, 2005 and 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Public Transportation Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the St. Joseph County Public Transportation Authority as of September 30, 2005 and 2004, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
November 18, 2005

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
St. Joseph County Public Transportation Authority

We have audited the financial statements of St. Joseph County Public Transportation Authority as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether St. Joseph County Public Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Joseph County Public Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Director's, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
November 18, 2005

David Schaffer, CPA
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ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2005 and 2004

The St. Joseph County Public Transportation Authority (the "Authority") is a public transportation authority located in St. Joseph County, Michigan, which adopted the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") during its first year of operations. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be a discussion and analysis of the financial results for the fiscal years ended September 30, 2005 and 2004 of the management of the Authority.

Financial Highlights

- The Authority's total net assets at September 30, 2005 were \$198,149, of which \$166,454 was invested in capital assets. At September 30, 2004 net assets were \$141,613.
- The Authority's total expenses were \$805,319, while total revenues were \$861,855 (\$351,887-operating; \$509,968 non-operating and capital contributions).
- The Authority exceeded the statutory assistance of 38.437574823% for 2005 of eligible expenses for operating assistance by \$23,862 for the fiscal year and has recorded a current year payable. The Authority was below the 12.40% for section 5311 funding by \$27,213 for 2005 and has recorded a current year receivable.

Overview of the Financial Statements

This report consists of three parts---*management's discussions and analysis* (this section), the *basic financial statements*, and *supplemental information*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

Summary of net assets —The Authority's net assets were \$198,149 and \$141,613 as noted below:

	2005	2004
Current assets	\$ 114,375	\$ 197,088
Capital assets	166,454	116,755
Total assets	<u>\$ 280,829</u>	<u>\$ 313,843</u>
Current liabilities	<u>\$ 82,680</u>	<u>\$ 172,230</u>
Net assets		
Invested in capital assets	\$ 166,454	\$ 116,755
Unrestricted	31,695	24,858
Total net assets	<u><u>\$ 198,149</u></u>	<u><u>\$ 141,613</u></u>

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005 and 2004****Analysis of Financial Position**

The Authority's operations ending September 30, 2005 and 2004 had net assets increasing by \$56,536 and \$15,452, respectively. A few of the significant factors affecting net assets during the year are discussed below:

A. Operations

Operating expenses exceeded operating revenues by \$453,432 and \$497,836. Net non-operating revenues of \$509,968 and \$513,288 were also received from sources that include operating grants from the State of Michigan and federal government.

B. Net Investment in Capital Assets

The Authority's investment in capital assets had an increase of \$49,699 at September 30, 2005. The net activity for the year is summarized in the following table:

	Balance 10/1/2004	Additions	Retirements	Balance 9/30/2005
Capital assets	\$ 153,571	\$ 85,967	\$ -	\$ 239,538
Less: accumulated depreciation	(36,816)	(36,268)	-	(73,084)
	<u>\$ 116,755</u>	<u>\$ 49,699</u>	<u>\$ -</u>	<u>\$ 166,454</u>

The additions included a new communication system and related equipment to be used for maintaining buses. They were financed with contributions from capital grants received from the State of Michigan. Capital acquisitions are expected to be the same or slightly lower next year.

Results of Operations

The Authority's results of operations for the fiscal years ended September 30 are summarized below:

Revenues:

	2005	2004
Program revenues		
Charges for services	\$ 351,887	\$ 352,262
General revenues		
State grants	378,318	363,235
Federal grants	131,650	150,053
Total revenues	<u>\$ 861,855</u>	<u>\$ 865,550</u>
Expenses:		
Transportation costs	<u>805,319</u>	<u>850,098</u>
Change in net assets	<u>\$ 56,536</u>	<u>\$ 15,452</u>

Results of Operations, Concluded**A. Operating Grants**

The State of Michigan operating assistance grants funds totaled 38.437574823% and 42.236619648% of eligible operating expenses for 2005 and 2004, respectively.

B. Federal Grants

Funding is also received from Federal Section 5311 monies passed through the State of Michigan at 12.40% of eligible operating expenses. In addition, the Authority receives Project Zero monies based on a statewide program designed to return people to work. These funds, partnered with MDOT, FIA, and HDCD, are received and reported separately from regular public transit funds.

C. Charges for Services

The Authority also subsidizes operations with fares received from passengers from transportation services. Fares comprised \$351,887 or 40% and \$352,262 or 40% for 2005 and 2004, respectively, of total revenues received.

D. Contract Services

The Authority contracts with a third-party to provide all services for transportation in St. Joseph County, Michigan. Rates were charged based on vehicle hours at \$32.66/hour for the year ended September 30, 2005.

Usage for the years by quarter is shown in the following table:

<u>Quarter</u>	Vehicle Hours		Vehicle Mileage		Passengers	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
First	5,207	5,612	86,969	130,586	15,121	16,896
Second	5,092	5,951	113,255	130,711	18,080	17,112
Thrid	5,167	5,662	114,639	120,052	17,652	16,612
Fourth	5,118	5,559	108,800	130,202	16,717	16,020
	<u>20,584</u>	<u>22,784</u>	<u>423,663</u>	<u>511,551</u>	<u>67,570</u>	<u>66,640</u>

Fund Expenditures Budget vs. Actual

Expenditures	Original and		Variance
	Final Budget	Final Audit	Audit vs. Final Budget
2004-2005	<u>\$ 771,460</u>	<u>\$ 805,319</u>	<u>\$ (33,859)</u>
2003-2004	<u>\$ 976,806</u>	<u>\$ 850,098</u>	<u>\$ 126,708</u>

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005 and 2004****Fund Revenues Budget vs. Actual**

Revenues

	Original and Final Budget	Final Audit	Variance Audit vs. Final Budget
2004-2005	<u>\$ 771,460</u>	<u>\$ 861,855</u>	<u>\$ 90,395</u>
2003-2004	<u>\$ 975,323</u>	<u>\$ 865,550</u>	<u>\$ (109,773)</u>

Original verses Final Budget

There were no changes or amendments between the original preliminary budget and the final budget.

Economic Factors and Next Year's Budgets and Rates

The funding composition for the transit service consists of State, Federal and Local dollars. Federal funding increased for 2005 from 10.95% of eligible expenses to 12.4%. Federal operating funds for 2006 have been set by M.D.O.T. at 15.00%. State formula operating assistance dropped from 42.23% of eligible expenses in 2004 to 38.43% in 2005. Fiscal year 2006 State operating assistance has been set at 39.25%. This stops the decline of state and federal operating assistance that has persisted for the past several years. Record setting fuel prices put a severe financial strain on the system for the last two quarters of 2005. The Authority also paid back excess operating funds they had received from MDOT in 2003 to start the system. This has created a cash flow problem toward the end of the fiscal year that will continue into at least the first two quarters of 2006. Fuel prices are anticipated to be a long-term issue that the Authority will have to address in future budgets. Funding under the Transportation to Work (a.k.a. Project Zero) ended at the end of 2005 and will have an impact on the number of vehicle hours of service the system will be able to provide.

The service received approximately fifty-one percent of its revenue from state/federal sources in 2005. The balance came from fare box and contract revenue. State/federal operating assistance is targeted at fifty-four percent for 2006. Without a millage or contribution from the County, the only source of local funds is the fare box and contracted services. Contract rates were increased from \$7.50 to \$8.00 per vehicle for 2006. The Board of Commissioners is also considering making a local contribution to the system so the Authority can have a full-time director. This would allow for further marketing and promotion of a local operating millage. All details for the Board of Commissioners contribution should be finalized early in 2006.

Budget monitoring will again be a crucial issue for the Authority in 2006. High fuel costs and no funding under the Transportation to Work program will put a severe strain on the budget. The County Board's contribution will be helpful, but does not provide funding to cover the purchase of transportation services. Depending on how the contribution is paid to the Authority it may help with the cash flow problem. If financial expectations are not being met, the Authority will have to decrease the service, increase fares, or a combination of both.

Comparative Information

The financial report show comparative data and the Authority expect to continue to present full comparative statements.

Contacting the Authority's Financial Management

The financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 810 Webber Street, Three Rivers, Michigan 49093.

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**STATEMENT OF NET ASSETS**
September 30, 2005 and 2004**ASSETS**

Current Assets:

	2005	2004
Cash and cash equivalents (Notes 3 and 5)	\$ 26,215	\$ 120,206
Accounts receivable (Note 6)	40,023	47,004
Due from federal government (Note 4)	27,213	17,519
Escrow-Michigan Transit Pool	15,119	6,319
Prepaid insurance (Note 3)	5,805	6,040
Total current assets	<u>\$ 114,375</u>	<u>\$ 197,088</u>

Noncurrent assets:

Capital Assets: (Notes 3 and 7)

Buses	\$ 183,942	\$ 102,690
Equipment	55,596	50,881
Less accumulated depreciation	(73,084)	(36,816)
Total noncurrent assets	<u>\$ 166,454</u>	<u>\$ 116,755</u>
Total assets	<u><u>\$ 280,829</u></u>	<u><u>\$ 313,843</u></u>

LIABILITIES

Current liabilities:

Accounts payable (Note 6)	\$ 43,699	\$ 37,009
Unearned revenues	15,119	6,319
Due to state government (Note 4)	23,862	128,902
Total current liabilities	<u>\$ 82,680</u>	<u>\$ 172,230</u>

NET ASSETS (Note 3)

Invested in capital assets	\$ 166,454	\$ 116,755
Unrestricted	31,695	24,858
Total net assets	<u>\$ 198,149</u>	<u>\$ 141,613</u>
Total liabilities and net assets	<u><u>\$ 280,829</u></u>	<u><u>\$ 313,843</u></u>

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITYSTATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
September 30, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Charges for services	\$ 351,887	\$ 352,262
OPERATING EXPENSES		
Services:		
Advertising	\$ 242	\$ 1,942
Audit costs	4,250	4,750
Other (transportation coordinator)	20,829	20,004
Materials and Supplies	3,489	1,165
Utilities	1,279	1,605
Casualty and Liability Costs:		
Premiums for public liability and property damage insurance	28,766	33,433
Other casualty and liability costs	5,572	12,524
Purchased transportation services	698,266	732,982
Miscellaneous:		
Travel, meetings, and training	849	1,080
Other miscellaneous	1,698	980
Operating leases and rentals	3,418	1,217
Interest on state advances	-	-
Depreciation on capital costs	36,268	25,162
Maintenance on capital costs	393	13,254
Total operating expenses	\$ 805,319	\$ 850,098
Net operating loss	\$ (453,432)	\$ (497,836)
NONOPERATING REVENUES (EXPENSES)		
<i>State of Michigan operating grants:</i>		
Operating assistance (Act 51) (Note 4)	\$ 271,323	\$ 304,828
Specialized services-operating assistance	16,466	17,600
Other	871	-
R.T.A.P. monies	793	821
<i>Federal operating grants:</i>		
Federal section 5311 monies (Note 4)	87,002	78,508
Federal project zero monies	44,648	71,545
Total nonoperating revenues	\$ 421,103	\$ 473,302
Loss before contributions and transfers	\$ (32,329)	\$ (24,534)
CAPITAL CONTRIBUTIONS AND TRANSFERS		
M.D.O.T Grant 2002-0693/Z9	80,661	-
M.D.O.T Grant 2002-0693/Z3	7,005	38,436
M.D.O.T Grant 2002-0567	-	1,550
M.D.O.T. Grant 2002-0693/Z12	1,199	-
Change in net assets	\$ 56,536	\$ 15,452
Net assets---beginning of year	141,613	126,161
Net assets---end of year	\$ 198,149	\$ 141,613

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**STATEMENT OF CASH FLOWS**
September 30, 2005 and 2004**CASH FLOWS FROM OPERATING ACTIVITIES**

	2005	2004
Receipts from customers	\$ 358,868	\$ 350,673
Payments to suppliers	(876,860)	(843,268)
Net cash used by operating activities	<u>\$ (517,992)</u>	<u>\$ (492,595)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Operating subsidies	<u>\$ 421,103</u>	<u>\$ 473,302</u>
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**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Capital contributions	\$ 88,865	\$ 39,986
Purchase of capital assets	(85,967)	(37,032)
Net cash provided by capital and related financing activities	<u>\$ 2,898</u>	<u>\$ 2,954</u>

Net decrease in cash and cash equivalents	\$ (93,991)	\$ (16,339)
Balances-beginning of year	120,206	136,545
Balances-end of year	<u>\$ 26,215</u>	<u>\$ 120,206</u>

**Reconciliation of operating loss to net cash used
by operating activities:**

Operating loss	\$ (453,432)	\$ (497,836)
<i>Adjustments to reconcile operating loss to net cash used by operating activities:</i>		
Depreciation expense	36,268	25,162
<i>Change in current assets and liabilities:</i>		
Accounts receivable	6,981	(14,025)
Due from federal government	(9,694)	(12,118)
Escrow-Michigan Transit Pool	(8,800)	(6,319)
Prepaid insurance	235	1,649
Accounts payable	6,690	926
Unearned revenues	8,800	6,319
Due to state government	(105,040)	3,647
Net cash used by operating activities	<u>\$ (517,992)</u>	<u>\$ (492,595)</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1. DESCRIPTION OF THE REPORTING ENTITY

The St. Joseph County Public Transportation Authority (the "Authority") is a public body organized as a legal entity pursuant to the Public Transportation Authority Act--- Public Act 196 of 1986. The Authority was created to coordinate the transportation for human service agencies in St. Joseph County, Michigan and provide those services for the County of St. Joseph. The Authority has the capability and the authority to provide public transportation to the general public in the area serviced.

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The Authority is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is a fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

The Authority also implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). Changes to the Authority's financial statements as a result of GASB 34 are as follows:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.

Basic financial statements prepared using full accrual accounting for all of the Authority's activities have been provided.

NOTE 2. DESCRIPTION OF FUNDS**Proprietary (Enterprise) Fund**

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of American ("GAAP") as applicable to governmental units and with the rules prescribed in the local public transit revenue and expense manual by the Michigan Department of Transportation. The Authority also applies Financial Accounting Standard ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The most significant of the Authority's accounting policies are described below:

A. Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund. See Note 2 for description.

B. Basis of Presentation

Financial statements. — The statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows display information about the Authority as a whole. These statements include the financial activities of the primary government. The statements show those activities of the Authority that are considered business-type activities, the only type of the Authority. With the Authority having only one fund type, a single presentation presents the total activity and fund.

The statements are accounted for using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flow provides information about how the Authority finances and meets the cash flow needs of its proprietary activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues: Exchange Transactions — Revenue resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**C. Basis of Accounting, concluded**

Revenues: Non-exchange Transactions — Revenues in which the Authority receives value without directly giving equal value in return, include grants, entitlements, and fares, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements; which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements; in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements; in which the resources are provided to the Authority on a reimbursement basis.

Expenses— Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an initial maturity of three months or less to be cash equivalents.

E. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current fiscal year, are recorded as prepaid items using the consumption method.

F. Inventories

Inventories of replacement parts and fuel are valued at lower of cost or market. Office supplies are not included in inventories.

G. Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Authority does not possess any infrastructure. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONCLUDED**G. Capital Assets and Depreciation, concluded**

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buses	5 years
Equipment and other	5 – 10 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are passenger and contract fares collected for providing transportation services.

J. Contributions of Capital

Contributions of capital in the proprietary fund arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal years ended September 30, 2005 and 2004.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 4. OPERATING ASSISTANCE RECEIVABLE (PAYABLE)**State Operating Assistance Receivable (Payable)**

	2005
Operating Expenses	\$ 805,319
Less:	
Depreciation	(36,268)
Repairs and maintenance reimbursement	(393)
Project zero reimbursements	(44,648)
Specialized services	(16,466)
Seminars and other reimbursements (R.T.A.P.)	(793)
Warranty reimbursements	(871)
Eligible operating expenses subject to limitation	<u>\$ 705,880</u>
38.437574823% of eligible operating expenses	\$ 271,323
State operating revenues received	295,185
Due from(to) State Government current year	<u>\$ (23,862)</u>
Due from(to) State Government prior year	-
Total due from(to) State Government	<u><u>\$ (23,862)</u></u>

**Section 5311 Operating Assistance
Receivable (Payable)**

Operating expenses	\$ 805,319
Less:	
Depreciation	(36,268)
Repairs and maintenance reimbursement	(393)
Audit expense	(4,250)
Project zero reimbursements	(44,648)
Specialized services	(16,466)
Seminars and other reimbursements (R.T.A.P.)	(793)
Warranty reimbursements	(871)
Eligible operating expenses subject to limitation	<u>\$ 701,630</u>
12.40% of eligible operating expenses	\$ 87,002
Progress payments made	59,231
Due from Federal Government-5311 monies current year	<u>\$ 27,771</u>
Due from Federal Government-5311 monies prior year	(558)
Total due from Federal Government-5311 monies	<u><u>\$ 27,213</u></u>

NOTE 5. DEPOSITS AND INVESTMENTS

At September 30, 2005, the Authorities deposits and investments include the following:

Balance Sheet Classification

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>
Cash on hand	\$ -	\$ -
Bank deposits	26,215	-
Investments	-	-
	<u>\$ 26,215</u>	<u>\$ -</u>

Bank Deposits:

All cash of the Authority is on deposit with financial institutions which provide FDIC insurance coverage.

Custodial Credit Risk-Deposits:

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2005, none of the Authority's bank balance of \$35,651 was exposed to custodial risk because it was uninsured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name. The Authority does not have a deposit policy for custodial credit risk.

Investments:

Michigan Compiled Laws, section 129.91, authorizes the Authority to invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States, including securities issued or guaranteed by the Government National Mortgage Association, United States government, or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles that are legal for direct investment by local government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions which do not have branches located in Michigan.

The Authority did not have any investments at September 30, 2005, and does not have a policy for interest rate, credit, concentration of credit, or custodial risk relating to investments.

Foreign Currency Risk:

The Authority is not authorized to invest in investments, which have this type of risk.

NOTE 6. RECEIVABLES AND PAYABLES

Receivables as of September 30, 2005 and 2004 consist of accounts (fees) and intergovernmental grants. All receivables are considered collectible in full and are summarized as follows:

	<u>2005</u>	<u>2004</u>
Charges for services	\$ 27,663	\$ 25,034
State capital grants:		
M.D.O.T. 2002-0567	-	1,550
M.D.O.T. 2002-0693/Z3	-	3,223
M.D.O.T. 2002-0693/Z12	1,199	-
Federal operation grants:		
Project zero	11,161	17,197
	<u>\$ 40,023</u>	<u>\$ 47,004</u>

Payables as of September 30, 2005 and 2004
are summarized as follows:

Trade	<u>\$ 43,699</u>	<u>\$ 37,009</u>
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NOTE 7. CAPITAL ASSETS

Capital asset activity for the fiscal years ended September 30 was as follows:

Purchased with Capital Grants:

	Balance 10/1/2004	Additions	Retirements	Balance 9/30/2005
Buses	\$ 102,690	\$ 81,252	\$ -	\$ 183,942
Equipment	50,881	4,715	-	55,596
	\$ 153,571	\$ 85,967	\$ -	\$ 239,538
Less: accumulated depreciation	(36,816)	(36,268)	-	(73,084)
	<u>\$ 116,755</u>	<u>\$ 49,699</u>	<u>\$ -</u>	<u>\$ 166,454</u>

NOTE 8. CAPITAL GRANTS

The Authority has contracted with federal and state agencies for grant funds to purchase equipment. All monies that the Authority is now eligible to receive have not yet been disbursed or requested. The following table shows the funds available at September 30, 2005:

Grant	Approved	Received	Requested	Available
M.D.O.T. contract 2002-0693/Z3:				
Communication System	\$ 25,500	\$ 23,224	\$ -	\$ 2,276
Power washer & compressor	17,500	15,120	-	2,380
Paint buses	17,000	7,097	-	9,903
M.D.O.T. contract 2002-0693/Z8	95,048	33,487	11,161	50,400
M.D.O.T. contract 2002-0693/Z7/R1	42,475	-	-	42,475
M.D.O.T. contract 2002-0693/Z12	158,750	-	1,199	157,551
M.D.O.T. contract 2002-0693/Z9	100,000	80,661	-	19,339
	<u>\$ 456,273</u>	<u>\$ 159,589</u>	<u>\$ 12,360</u>	<u>\$ 284,324</u>

NOTE 9. RISK MANAGEMENT

The Authority participates in a public entity risk pool for its general and automobile liability insurance. The pool is through the Michigan Transit Pool Liability Trust Fund and will cover up to \$4,000,000 per claim subject to a \$5,000 retention level. The Authority also participates in a public entity risk pool for its comprehensive and collision coverage on its vehicles. All claims are subject to a \$10,000 per claim deductible. Settled claims relating to the insurance did not exceed coverage during the current fiscal year.

NOTE 10. OPERATING LEASES

The Authority entered into a lease with ARCH, Inc. for the use of vehicles, equipment and buildings. The lease is for a term of two years ended 10/1/04. The building is being leased for \$100 per month. Sixteen (16) vehicles are being leased for \$1 per year each and the equipment is also leased for \$1 per year. The total rent expense for the years ended September 30, 2005 and 2004 was \$1,217, respectively. The minimum obligations for the next five years are \$1,217 for the year ended September 30, 2005.

NOTE 11. COMMITMENTS

The Authority intends to purchase the vehicles, equipment, buildings from HOPE Network South (d/b/a ARCH, Inc.) during the 2006 fiscal year. Funding will be provided by a capital grant which will include a combination of State and Federal dollars.

SUPPLEMENTARY INFORMATION



ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
St. Joseph County Public Transportation Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Joseph County Public Transportation Authority's basic financial statements. The schedule of operating expenses and the schedule of eligible cost computations are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "McMurray, Marks & Edmunds". The signature is written in dark ink and is positioned to the left of a vertical red line.

McMurray, Marks & Edmunds
November 18, 2005

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES
 SEPTEMBER 30, 2005
 (with comparative totals for 2004)

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Totals</u>	<u>2004 Totals</u>
<i>Services:</i>					
Advertising	\$ -	\$ -	\$ 242	\$ 242	\$ 1,942
Audit costs	-	-	4,250	4,250	4,750
Other (transportation coordinator)	-	-	20,829	20,829	20,004
Materials and Supplies	3,489	-	-	3,489	1,165
Utilities	-	-	1,279	1,279	1,605
<i>Casualty and Liability Costs:</i>					
Premiums for public liability and property damage insurance	28,766	-	-	28,766	33,433
Other casualty and liability costs	-	-	5,572	5,572	12,524
Purchased transportation services	500,533	68,583	129,150	698,266	732,982
<i>Miscellaneous:</i>	-				
Travel, meetings, and training	-	251	598	849	1,080
Other miscellaneous	-	591	1,107	1,698	980
Operating leases and rentals	18	-	3,400	3,418	1,217
Depreciation on capital costs	36,268	-	-	36,268	25,162
Maintenance on capital costs	-	393	-	393	13,254
	<u>\$ 569,074</u>	<u>\$ 69,818</u>	<u>\$ 166,427</u>	<u>\$ 805,319</u>	<u>\$ 850,098</u>

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS
SEPTEMBER 30, 2005**

	State Operating Assistance	Federal Section 5311
<i>Services:</i>		
Advertising	\$ 242	\$ 242
Audit costs	4,250	4,250
Other (transportation coordinator)	20,829	20,829
Materials and Supplies	3,489	3,489
Utilities	1,279	1,279
<i>Casualty and Liability Costs:</i>		
Premiums for public liability and property damage insurance	28,766	28,766
Other casualty and liability costs	5,572	5,572
Purchased transportation services	698,266	698,266
<i>Miscellaneous:</i>		
Travel, meetings, and training	849	849
Other miscellaneous	1,698	1,698
Operating leases and rentals	3,418	3,418
Interest on state advances	-	-
Depreciation on capital costs	36,268	36,268
Maintenance on capital costs	393	393
Total operating expenses	<u>\$ 805,319</u>	<u>\$ 805,319</u>
 Less: Ineligible Expenses		
Interest on state advances	\$ -	\$ -
Depreciation on capital costs	36,268	36,268
Maintenance on capital costs	393	393
Project zero reimbursements	44,648	44,648
Specialized services	16,466	16,466
Seminars and other reimbursements (R.T.A.P.)	793	793
Warranty reimbursements	871	871
Audit expense	-	4,250
Total Ineligible expenses	<u>\$ 99,439</u>	<u>\$ 103,689</u>
 Net Eligible Expenses	<u><u>\$ 705,880</u></u>	<u><u>\$ 701,630</u></u>
 State Statutory Operating Assistance:		
38.437574823% of eligible expenses	<u>\$ 271,323</u>	n/a
 Federal Section 5311:		
12.40 % of eligible expenses	n/a	<u><u>\$ 87,002</u></u>